STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
45 Fremont Street, 21st Floor
San Francisco, California 94105

REG-2008-00010 **February 5, 2009**

2008 CALIFORNIA LOW COST AUTOMOBILE INSURANCE RATE PROPOSAL

SUMMARY AND RESPONSE TO COMMENTS

Commentator: John J. Winkleman, Jr. on behalf of the California Automobile Assigned Risk Plan (CAARP)
Date of Comment: September 24, 2008
Type of Comment: Written

Summary of Comment (page 1-2):

The commenter describes the subject of the rate rulemaking proceeding that the commenter seeks to address, the commenter's background, as well as the applicable laws that relate to this rate proceeding.

Response to Comment:

Because these comments are not specifically directed at the proposed rate regulations or to the procedures followed by the Department in proposing the rate regulations, the comments require no response.

Summary of Comment (paged 2-3 and Exhibits):

The commenter describes the data used in support of the proposed adjustments to the indicated rate increase and details the efforts of CAARP to update the data in support of these adjustments. Specifically, the commenter describes additions of the following data: 1) updates to the first quarter of 2008 trend data, 2) the inclusion of 2007 statistical call data for the loss development calculations, 3) the addition of the July 2008 data from the Department to update the projected investment yield, 4) the first quarter, 2008 wage data and second quarter of CPI trend data were added, 5) premium charge-offs and installment fee revenues were amended to include the CAARP expense survey data, and 6) the 2007 low cost automobile assignment data was included to the deductions for delayed premium remissions. As a result of these updates to the ratemaking data, the commenter concludes that an indicated rate increase of as much as 10.9% would be appropriate. Furthermore, the commenter concludes that the updated data supports maintaining the current surcharge relativity of 1.25 for youthful operators.

Response to Comment:

For the reasons set forth within the Insurance Commissioner's Rate Decision and Order, this comment and the data in support thereof are rejected in part and accepted in part.

Commentator: Keith Gentile on behalf of the California Automobile Assigned Risk Plan (CAARP)
Date of Comment: October 7, 2008
Type of Comment: Written

Summary of Comment (page 1 and exhibits 2, 3 and 4):

In responding to the Department's request that accident year credibility be dollar weighted, the commenter notes that weighting years based on dollar weights is a method followed on the voluntary market. The effect of making this adjustment is an overall 0.9% rate decrease.

Response to Comment:

For the reasons set forth in the Commissioner's Rate Decision and Order, the Commissioner has concluded that weighting years based on dollar weights is appropriate and the results of this comment were therefore incorporated into the final rate calculation.

Summary of Comment (page 1 and Appendix 10):

The commenter explains why the low cost automobile rate indication is using ULAE instead of AOE. In short, according to the commenter, the statistical agents used by CAARP still employ the allocated loss adjustment expense and ULAE distinction. Additionally, the commenter advised that the ALAE data reported to the statistical agents is directly related to low cost automobile claims. Because CAARP receives the actual ALAE figures, CAARP has estimated ULAE based on an average of the countrywide statistical agent data and weighted that data on California total limits residual market losses. CAARP stated further that the statistical agents' definition of ULAE is not consistent with the NAIC definition of AOE.

Response to Comment:

For the reasons set forth in the Commissioner's Rate Decision and Order, the Commissioner has rejected the use of ULAE and instead has approved a rate that utilizes AOE as published from the efficiency standard that is developed by the Department of Insurance.

Summary of Comment (page 2):

As requested by the Department, the commenter explains why a three-year loss development factor was not used. The commenter states that CAARP's loss development selections were not based on a set rule, but rather, were judgmentally chosen to best fit the loss development patterns. Based upon judgment, therefore, a five-year weighted average was used. The commenter notes that, if a three-year weighted average were used, the impact would be an overall decrease of 1.9%.

Response to Comment:

For the reasons set forth in the Commissioner's Rate Decision and Order, the Commissioner rejects the use of a five-year loss development calculation and instead has approved a rate that utilizes a three-year loss development factor. This is similar to the loss development commonly employed in the California voluntary market.

Summary of Comment (page 2):

This portion of the comment addresses the Department's request that CAARP use the Department's efficiency standard to calculate General and Other Acquisition expense. The commenter notes that CAARP originally utilized the NAIC report on profitability to calculate the G&OA. Were CAARP to use the Department's efficiency standard, however, the commenter states that the overall rate indication would not change.

Response to Comment:

For the reasons set forth in the Commissioner's Rate Decision and Order, the Commissioner rejects the use of the NAIC report on profitability to calculate the G&OA. Instead of using the NAIC report, the Commissioner has approved the overall rate indication set forth in the Order based upon the G&OA number derived from the Department's efficiency standard.

Summary of Comment (page 2):

The commenter acknowledges that CAARP used Fast Track date from the Insurance Services Office in order to calculate loss trend. The commenter states that the loss trend selections were "conservative" in recognition of the fact that Fast Track data uses total limits, whereas low cost automobile losses are capped at limits that are significantly lower than the total limits reflected in the Fast Track data.

Response to Comment:

For the reasons set forth in the Commissioner's Rate Decision and Order, the Commissioner has adopted the use of Fast Track data to derive loss trend. The Commissioner notes, however, that trend selections based on Fast Track data may be lowered in future filings, in light of the fact that Fast Track data uses higher limits of coverage in trending losses.

Summary of Comment (page 2):

In response to the Department's inquiry about the use of a productivity adjustment for this filing, the commenter notes that CAARP removed the productivity adjustment many years ago because the adjustment was similar to the countrywide procedure of using the Bureau of Labor Statistics to calculate the fixed expense trend. The commenter notes, further, that this issue becomes a moot point if the Commissioner elects to remove fixed expenses and to treat all expenses as variable.

Response to Comment:

Because the Commissioner's Rate Decision and Order approves the ultimate rates in this proceeding based in part upon the treatment of all expenses as variable expenses, the Commissioner agrees with the commenter that this issue is moot.

Summary of Comment (page 2):

The commenter states that CAARP utilized the model of incorporating fixed expenses when determining the overall rate change in its previous approved filing. Were CAARP to treat all expenses as variable, however, the commenter notes that the overall effect on the rate would be a 0.7% increase.

Response to Comment:

For the reasons set forth in the Commissioner's Rate Decision and Order, the Commissioner rejects the use of fixed expenses in calculating low cost automobile rates for this filing. In lieu of the use of fixed expenses, the Commissioner's Order approves a rate that is calculated based upon the treatment of all expenses as variable expenses.

Summary of Comment (page 3 and Exhibit 6):

The commenter responds to the Department's request for information about the viability of using either a three-way credibility analysis or county groupings for the complement of credibility. After noting that very few counties contain credible data and that a stable compliment of credibility is necessary, the commenter explains the revised methodology employed in response to the Department's request for information. Specifically, the commenter states that CAARP credibility weighted the pure premiums with their respective statewide pure premiums in order to soften any large premium shifts in the county pure premium. Subsequently, CAARP calculated indicated rates by using the low cost automobile and voluntary market credibility weighted pure premiums in order to derive an index. The index was then applied to the statewide weighted average rates to distribute the rate change by territory. The effect of this redistribution was an overall decrease of 0.1%.

Response to Comment:

For the reasons set forth in the Commissioner's Rate Decision and Order, the Commissioner has chosen not to require an alternative credibility calculation for territorial development. This comment is, therefore, rejected at this time. The Commissioner instructs in his Order, however, that new and different credibility options should be explored for future filings in order to develop a better approach to calculating credibility for territorial development.

Commentator: John J. Winkleman, Jr. and Keith Gentile on behalf of the California Automobile Assigned Risk Plan (CAARP)
Date of Comment: September 24, 2008
Type of Comment: Oral

Summary of Comment (page 5, lines 18-25):

The CAARP Advisory Committee originally proposed an 8.8% increase, overall, in January of 2008. At the hearing, the commenter presented updated data which reflected updates to the trend factors and other rate components. The result of these revisions led to an overall indication of 10.9%. The commenter states that this revised overall indication supports the 8.8% rate increase that CAARP originally proposed.

Response to Comment:

The updated data submitted by the commenter at the hearing are reflected in the summaries and responses to the written comments set forth above. The updated data were also considered in the Commissioner's ultimate Rate Decision and Order. Consequently, those summaries and the responses thereto as well as the Commissioner's Order are incorporated by reference into this response.

Summary of Comment: (page 6, lines 23 through page 14, line 5):

The Department raised a number of questions relating to the calculation of the proposed rate increase. The questions concerned the following topics:

- The effect of using a methodology common in the voluntary market; namely, using a dollar-weight for years when ascertaining accident year credibility weights;
- An explanation of the reasons why CAARP's rate indication uses unallocated loss adjustment expenses (ULAE), as opposed to the more common contemporary standard of using adjusting and other expense (AOE) in developing the rate indication;
- Whether a three-year weighted average of loss development factors would be appropriate for use with California Low Cost Automobile ratemaking;
- Whether the California efficiency standard figures could be used to calculate General and Other Acquisition Expenses (G&OA);
- Whether ISO Fast Track data, which uses total limits, is appropriate in the context of Low Cost Automobile rates, given that the California Low Cost Automobile program's limits are $10,000 for bodily injury or death to one person and a $20,000 limit for bodily injury or death to all persons in an accident;
- Why a productivity adjustment is no longer used in calculating CAARP private passenger rate indications;
- Whether it would be appropriate to treat all expenses as variable expenses, rather than to split expenses between fixed and variable expenses for purposes of the

Low Cost Automobile rate indication; and

- Whether a three-way credibility analysis or county grouping methodology are viable options for the complement of credibility for California Low Cost Automobile rates.

The commenter provided oral responses to some of these topics, but ultimately requested time to present a formal written response. The commenter and the Department agreed to give CAARP approximately four weeks to respond.

Response to Comment:

The oral responses presented by the commenter at the hearing were expanded upon in the written response submitted on October 7, 2008. Because the October 7 written comments and the Commissioner's response to those comments are reflected in the summaries and response to comment set forth above as well as the Commissioner's ultimate Order in this case, those summaries and the responses thereto and the Commissioner's Order are incorporated by reference into this response.